



CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY: A STUDY OF POSSIBLE INTERRELATIONSHIP IN INDIAN COMPANIES

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ABSTRACT

The paper attempts to discover the interrelationships between Corporate Governance and Corporate Social Responsibility (CG and CSR) through different aspects in Indian Companies. The reason behind the attempt is to analyze how the companies have postulated CG and CSR in their philosophies. Is there any difference between the outlooks of companies toward CG and CSR? How did the companies in their philosophy statements address the issues and dimensions of CG and CSR? The paper tries to explore various propositions on the relationship between CG and CSR through content analysis. The data for content analysis is obtained from annual reports of Nifty 50 companies. The reports are scanned for CG and CSR philosophy statements of companies with respect to marking the presence of a word, a sentence, a statement, a phrase or an idiom complementing any of the dimensions of CG and CSR identified for coding. A huge overlap between CG and CSR is found that demonstrated a two-way relationship significantly impacting each other. The study urges to see both the aspects as complementary to each other in the best interests of the company, stakeholder, and nation as a whole. The study gives an overview of the philosophies of companies representing the economic barometer of the country in terms of governance and social responsibility that can be useful for assessing the strengths of CG and CSR interrelationship in Indian companies. It samples the philosophies of companies with respect to both the aspects of CG and CSR.

KEYWORDS: Corporate Governance, Corporate Social Responsibility, Companies, Interrelationship, Shareholders, Philosophies.

INTRODUCTION:

Although boosting value for shareholders is a universal goal for business organizations, the appearance of different innovative expectations from modern organizations has posed a challenge for examining the non-financial results along with financial outcomes. Corporations are motivated today to contribute more than just maximizing the shareholder's value. The broader vision has included the societal and environmental aspects of evaluation on the corporations' part. India's social and economic structure is shifting, calling for examining the performance of organizations on different fronts-from profit making front to meeting societal goals. There are different groups related to an organization directly or indirectly impacting each other in different ways. They are called stakeholders. The stakeholder may include shareholders, suppliers, creditors, employees, government, managers, directors, auditors and customers. Further, every business functions in society. Its actions impact the environment. So it becomes the responsibility of every business organization to take good care of the society and its environment and work for the betterment of the society by incorporating good governance practices and promoting education, healthcare and livelihood (Halder and Mishra, 2015). Hence, corporate social responsibility focuses on an organization's relationship with the society (Majeed et al., 2015) and motivates the organization to do well in favor of the society beyond what is being mandated by the law. Corporate Governance and Corporate Social Responsibility (CG and CSR hereafter) issues are being researched in the field of Social Sciences like Management, Law, etc. CG is considered to encourage ethics, fairness, transparency and accountability in all the operations undertaken by the business organizations. The business organizations are supposed to be profitable, but at the same time, their responsibility is exaggerated to practice good governance standards and assuring that their profit generating activities are not detrimental to the society. This falls under the domain of CSR that considers how business organizations and its stakeholders interface. There has been a knot between CG and CSR, however, the relationship between the two is changeable depending upon how they have been defined (Halder and Mishra, 2015). The present paper attempts to discover the interrelationships between CG and CSR through different aspects. The paper tries to investigate the notion and develop an understanding of the relationship between CG and CSR with the help of Nifty 50 companies' philosophies. The study proposes to see both the aspects as complementary to each other.

LITERATURE REVIEW:

Corporate Governance Padachi et al. (2017) in their study emphasized on the importance of CG for maintaining a competitive advantage in the industry. There are some generally accepted elements of good governance. Accountability, transparency, performance and protecting the interests of shareholders are at the top of such elements. Honesty, answerability, and transparency are assured by the control aspect of governance (MacMillan et al., 2004; and Page, 2005). Berle and Means (1932) identified that governance is required because the owners of the company do not have control over the management of the company. This problem is defined as a principal agent relationship problem and forms the basis for agency theory introduced by Jensen and Meckling (1976). The theory explains the variances in the interest of the agent and the principal that create conflict between them. Expectations of owners are that the agency should run the business to maximize shareholders' wealth, but the manager may not do it. Misemployment of funds may take place due to the opportunistic nature of man-

agers (Aguilera, 2005; and Dey, 2008) and that in turn may reduce their investment allocation for companies (Grossman and Hart, 1986). The conflicting nature of principal and agents creates a tendency among them to control each other (Shankman, 1999). Clarke (2004) suggested governance mechanisms that are supposed to safeguard the interests of shareholders. However, with the passage of time, the coverage for governance is extended to other stakeholders (Ingley, 2008). CG can be looked from two different viewpoints, namely, the narrow viewpoint and the broader viewpoint. The narrow viewpoint is the focus on shareholders' interest, while the broader viewpoint focuses on the protection of the interests of all the stakeholders. Shleifer and Vishney (1996) regarded the narrow aspect for those who have invested their hard-earned money in the organization, but they do not have direct control over the management. They are the primary owners and focus on profit maximization. The broader viewpoint includes all stakeholders and regards their contribution correspondingly important (MacMillan et al., 2004; and Jamali et al., 2008). The broader aspect complements the stakeholder theory (Kiel and Nicholson, 2003) and demands the business groups to shoulder a wider responsibility extended to all the stakeholders. Such responsibility can be regarded as CSR.

Corporate Social Responsibility:

CSR extends the teaching of CG and demands the business organizations to achieve a balance among the economic, social and environmental goals along with generating value for shareholders and protecting the interests of stakeholders. In a recent study, found that firms with better CSR policies have generated higher stock returns than firms having not so better CSR policies. One of the major aspects of firm performance is its social performance. The World Business Council for Sustainable Development (2001) defined CSR as "a promise of business to contribute to sustainable economic development, working with employees, their families and the domestic communities". The European Commission (2002) articulated CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". The definitions may have little variations, but they are focusing on the mutual concerns of stakeholders and the society at large. Unlike CG, CSR is not mandated by the government and is supposed to be followed voluntarily. Intensified interest in CSR in recent years has emanated from the advent of globalization and international trade, which have revealed increased business complexity and new demands for greater transparency and corporate citizenship. Carroll (1979) identified four types of different corporate social responsibilities as economic, legal, ethical and optional. Lantos (2001) shrank these categories into ethical, philanthropic and strategic. It stated that ethical CSR is morally mandatory and drives an organization to go beyond from merely fulfilling a firm's economic and legal obligations. An organization ought to protect the society and environment from harmful or social damages. In the same way philanthropic CSR is benevolent CSR, which encompasses candid voluntary caring, irrespective of whether the firm will get financial benefits or not. Strategic CSR, on the other hand, is strategic benevolence, that means attaining strategic business objectives, while also endorsing societal welfare. In the words of Quester and Thompson, it is firm's actions to recognize activities and deeds that are thought to be good for business as well as for society.

Corporate Governance-Corporate Social Responsibility Interrelationships:

The charity-based image of CSR has now shifted to stakeholder participation-based model. There has been a visible overlay between CG and CSR, specifically when seeing the wider notion of CG. CSR is slowly and gradually getting merged into companies' CG practices. Good governance needs accountability and due respect to the needs of all key stakeholders. CSR considers business organizations as answerable to all the interrelated stakeholders that add value to the business. A number of CSR researchers highlighted the need to build and sustain the highest values of governance internally, mainly in considerations of the internal dimension of CSR. The broader conception of CG requires due regard to all stakeholders and ensuring that firms are answerable to all their key stakeholders, while the narrow conception guarantees accountability, compliance and transparency. The stakeholder approach to CSR recognizes the corporations as a complex web of stakeholder relationships, and corporations have an obligation to these different stakeholders. According to the internal dimension of CSR, corporations should accord due diligence to internal stakeholders' issues. Thus, both CG and CSR obligate firms to practice their fiduciary and ethical responsibilities in order to maintain and retain the trust of its investors and stakeholders. Transparency, accountability and honesty thus are the crux forming the concept and principles of CG and While CG deduces "being held accountable for," CSR means "taking account of", and both concepts are collectively used by firms to regulate their business operations. There are many interesting studies available on the search for interrelationships between CG and CSR. The studies tried to explore the relationship through different methods such as testing the hypothesis of the relationship between CG and CSR and examining different theories and models of CG and CSR. In a recent study on CG and CSR interactions, focused on CG policies impacting CSR behavior of a firm. It was found a positive joint effect of CG and CSR on firm performance. There is a progressive overlap between the CG agenda and the CSR and sustainable development agendas as examined three relational models of CG and CSR, testing the relationship between the two from different perspectives. While exploring this relationship, it scanned CG as a pillar of CSR; CSR as a dimension of CG; and CG and CSR as two dimensions of the same scale. CG and CSR are part of an organization's responsibility continuum directed towards fiduciary and moral obligations towards stakeholders. It was also suggested CG as one of the four pillars (strategic

governance, human capital, stakeholder capital and environment) of CSR. Strategic governance is supposed to be required for better management of human capital, stakeholder capital and environment. CSR is viewed as a dimension of CG. A business organization operates in the society and it is the responsibility of the business to obey the norms of the society. CSR is one of the dimensions of CG, including board structure, strategic leadership, stewardship, capital structure and market relations. The model insists that an organization be responsible to the society and community (external dimension of CSR) on the one hand, and to employees on the other (internal dimension of CSR). The link between CG and CSR is viewed complementary to each other. On the one extreme end lies corporate conformance to laws and on the other lies corporate performance. In order to examine companies' CG and CSR philosophy statements available in the CG and CSR reports section of the annual reports, was being revisited the following already tested propositions:

- CG is one of the pillars of CSR.
- CSR is a dimension of CG.
- The link between CG and CSR is viewed complementary to each other.

The reason behind doing so is to analyze how the companies have postulated CG and CSR in their philosophies. Is there any difference between the outlooks of companies toward CG and CSR? How the companies in their philosophy statements addressed the issues and dimensions of CG and CSR? We began our search to answer these research questions with the help of content analysis of philosophy statements of companies. However, while testing these propositions, the present study adopted a different view. What is the idea that the companies carry in their minds when beginning their operations? In their philosophy statement on CG and CSR, companies present their perspectives and more precisely their mission for various aspects of CG and CSR.

DATA AND METHODOLOGY:

To re-examine the relationship between CG and CSR, the Nifty 50 companies' philosophy statements with respect to CG and CSR contained in the annual reports for the year ended 2017-18 were analyzed and coded as per the coding scheme developed for the study.

List of Nifty 50 Companies

ACC Ltd.	Bajaj Auto Ltd	Axis Bank Ltd.	NTPC Ltd.	Tech Mahindra Ltd.
Adani Ports and Special Economic Zone Ltd.	Power Grid Corporation of India Ltd.	Bharat Petroleum Corporation Ltd.	Oil & Natural Gas Corporation Ltd	Tata Motors Ltd.
Indian Oil Corporation Ltd.	Larsen & Toubro Ltd.	Sun Pharma Industries Ltd.	Reliance Industries Ltd.	Hero MotoCorp Ltd.
Ambuja Cements Ltd.	Lupin Ltd.	Mahindra & Mahindra Ltd.	Bharti Infratel Ltd.	Eicher Motors Ltd.
IndusInd Bank Ltd.	Infosys Ltd.	Bharti Airtel Ltd.	Bosch Ltd.	Wipro Ltd.
Asian Paints Ltd.	Bank of Baroda	Coal India Ltd.	Cipla Ltd.	ITC Ltd.
Housing Development Finance Corporation Ltd.	Tata Consultancy Services Ltd.	Zee Entertainment Enterprises Ltd.	UltraTech Cement Ltd.	Dr. Reddy's Laboratories Ltd.
Aurobindo Pharma Ltd	Kotak Mahindra Bank Ltd.	Maruti Suzuki India Ltd.	Indiabulls Housing Finance Ltd.	Hindalco Industries Ltd.
Yes Bank Ltd.	ICICI Bank Ltd.	Vedanta Ltd.	State Bank of India	Tata Power Co. Ltd.
HDFC Bank Ltd.	Tata Steel Ltd..	Hindustan Unilever Ltd.	Tata motors Ltd.	GAIL (India) Ltd

There are four steps involved in applying content analysis in this study. First, the literature on CG and CSR with respect to concepts, definition and dimensions was reviewed carefully for developing the coding scheme for content analysis. Second, the CG and CSR reports were separately analyzed to mark the presence of a word, a sentence, a statement, a phrase or an idiom complementing any of the dimensions so identified. The presence of at least one example for coding was considered for each company. The third step involves calculating the frequency and percentage obtained by the each of the dimensions. In the fourth step, the paper has presented the interrelationships between CG and CSR with the help of

a Venn diagram. In order to find out the interrelationships between CG and CSR, a common coding scheme was needed to be developed. So, merged the dimensions that were separately found for CG and CSR (Table 1). The shareholder value and economic dimension are merged as shareholder dimension, the reason being the economic motive of an organization is to preserve the profitability for the shareholders. In the same way, stakeholder rights dimension is merged with stakeholder dimension. The dimensions must be mutually exclusive so that a word or a phrase falls in one and only one dimension.

Table 1: Coding Scheme for Content Analysis Dimensions of CG Dimensions of CSR

Dimensions of CG	Dimensions of CSR	Combined Coding Scheme for CG and CSR
Shareholder Dimension	Economic Dimension	Shareholder Dimension
Stakeholder Dimension	Stakeholder Dimension	Stakeholder Dimension
Social Dimension	Social Dimension	Social Dimension
Environmental Dimension	Environmental Dimension	Environmental Dimension
Voluntariness Dimension	Voluntariness Dimension	Voluntariness Dimension
Transparency Dimension		Transparency Dimension
Disclosure Dimension		Disclosure Dimension
Risk Management Dimension		Risk Management Dimension

The CG and CSR reports were analyzed and the content was coded as per the codification format presented below. For example, if a statement talks about maximizing profitability or shareholders' wealth, we coded it as shareholder dimension. In a similar way, if a statement emphasizes creating value for employees, stakeholder group, etc., we coded it as stakeholder dimension. Similarly, the other dimensions were coded as:

The Dimensions and Coding Format with Examples

Shareholder Dimension:- Profitability or shareholder's wealth, business, economic value, enhance shareholder value

Stakeholder Dimension:- Stakeholder or stakeholder groups, employees, customers

Social Dimension:- Consideration for society, community, supporting education

Environmental Dimension:- Considerations for natural environment, water management

Voluntariness Dimension:- Actions not mandated by law, ethics, disaster response

Transparency Dimension:- Transparency, fairness, accountability

Disclosure Dimension:- Disclosures, openness, information

Risk Management Dimension:- Risk management system or internal control, whistleblower, monitoring

Compliance Dimension:- Obedience to laws, compliance with laws, complying with Clause 49.

RESULTS AND DISCUSSION:

The dimension scores were obtained under both the categories for CG and CSR by adding up the frequency counts for each dimension. Also, to make the scores comparable, a dimension ratio was also calculated by dividing the frequency obtained by the maximum number of frequency count for each dimension (Table 2). For CG dimensions score, the shareholder, stakeholder, voluntariness, transparency, disclosure, risk management and compliance dimensions have got a significantly high score in comparison to social and environmental dimensions. Transparency, disclosure and risk management have got 92.9%, 96.6% and 100% focus in the CG philosophy statements of companies. Further, the social dimension and environmental dimension have got a very high score of 83.3% and 92.3% focus from all the companies as dimensions of social responsibility, while the disclosure and risk management got a very low score of 3.4% and 0% respectively. Risk management has got 100% attention in the governance orientation of the companies. We found significant linkages between CG and CSR. Almost all the dimensions studied have attracted the attention of the companies in their philosophy statements for both the aspects of CG and CSR. The study demonstrated such linkages with a clear example of how the companies have articulated their considerations for varying aspects of CG and CSR. Interdependencies are found to have existed between CG and CSR. While CG is generally regarded as establishing a basic framework of stewardship and trusteeship, CSR is conceived as the external expression of internal CG policies and principles. Based on the outcomes of the content analysis, the paper suggests a simple model that sums up the main interfaces of CG and CSR which illustrates that CG and CSR should not be considered and sustained independently. The observations propose that the link between CG and CSR is clearly a prominent two-way relationship. The companies have focused almost on all the dimensions under both the disciplines, though with differing attentions. Despite such differing attentions and varied concerns, both the disciplines are striving towards the common goals of economic, social and environmental betterment. However, CSR is more inclined towards social and environmental concerns. CG, on the other hand, is sharing larger responsibilities for shareholders, stakeholders, society, transparency, disclosures and risk management as indicated by the outcomes of the analysis.

Table 2: CG and CSR Dimension Score Ratio (%)

Dimension	Score CG	Score CSR
Shareholder Dimension	84.2	15.8
Stakeholder Dimension	71.2	28.8
Social Dimension	16.7	83.3
Environmental Dimension	7.7	92.3
Voluntariness Dimension	66.7	33.3
Transparency Dimension	92.9	7.1
Disclosure Dimension	96.6	3.4
Risk Management Dimension	100.0	0.0
Compliance Dimension	87.0	13.0

CONCLUSION:

The study gives an overview of the performance of companies representing the economic barometer of the country with respect to their philosophies on both the governance and the social responsibility fronts that can be useful for assessing the strengths and shortcomings of Indian companies. A huge overlap between CG and CSR is found that demonstrates a two-way relationship significantly impacting each other. The study found evidence that supports the proposition that the link between CG and CSR is complementary to each other. CG is found to have major attention in research and practice because CSR is still not obligatory. Therefore, the study urges to see both the aspects as complementary to each other in the best interests of the company, stakeholder, and nation as a whole.

LIMITATIONS AND SCOPE FOR FUTURE STUDIES:

The study provided clear indications that governance and social responsibility hugely overlap. We have sampled the philosophies of companies with respect to the aspects of CG and CSR that indicate the stance of the companies and the way they view and value CG and CSR. However, the philosophy of companies and actual practices may have variations. Future studies can examine what companies are doing practically. That examination can be done through a further content analysis of the complete CG and CSR reports. Further, future studies can also explore the diffusion of complex interfaces of CG and CSR.

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